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C O N F I D E N T I A L SECTION 01 OF 04 CARACAS 001281

SIPDIS

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ENERGY FOR CDAY AND ALOCKWOOD
NSC FOR DTOMLINSON AND JSHRIER

E.O. 12958: DECL: 01/12/2017
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: EXXONMOBIL AND CONOCOPHILLIPS EXIT VENEZUELA

REF: A. CARACAS 1157
[B.](#) CARACAS 1241
[C.](#) CARACAS 426
[D.](#) CARACAS 1197
[E.](#) 5/25 FLATT-VENEZUELA DESK E-MAIL

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1.](#) (C) SUMMARY: The BRV held a signing ceremony on June 26 to convert the remaining private sector oil projects into PDVSA-controlled joint ventures. Representatives from Chevron, Total, Statoil, BP, ENI, Inelectra and Sinopec signed memorandums of understanding (MOU) for their respective investments. ExxonMobil (XM) and ConocoPhillips (CP) did not sign the agreements and will exit Venezuela. Both companies will continue negotiating with the BRV on compensation for lost investments. Petrocanada will also be exiting Venezuela as well. CNPC did not sign an MOU at the ceremony but Energy Minister Ramirez indicated that the door was still open for them to form a joint venture for their investment. END SUMMARY

SIGNING CEREMONY

[2.](#) (C) Energy Minister Rafael Ramirez presided over a signing ceremony on June 26 to convert private sector oil projects into PDVSA-controlled joint ventures. Energy Vice Minister Bernard Mommer and CVP president Eulogio Del Pino attended the ceremony as well as the Norwegian ambassador. Representatives from Chevron, Total, Statoil, BP, ENI, Inelectra, and Sinopec signed MOUs for the migration of their respective investments. As reported in Reftels A and B, the BRV presented oil companies with a MOU and an underlying

conversion contract. During the ceremony, BRV officials referred only to an MOU. Based on the context of their remarks, we are assuming the companies signed off on both documents. The documents will be submitted to the National Assembly for approval. The deadline for approval under the nationalization decree is August 26.

13. (C) The ceremony was surprisingly low-key. Ramirez began his remarks by stating the migration was a culmination of the process begun by the promulgation of the nationalization decree in February (Reftel C). He stated the BRV looked forward to working with the assembled companies for the next 30 years or more. Ramirez ended his remarks by stating the BRV remained open to dialogue with companies that did not sign the MOU. In comments to the media after the ceremony, Ramirez appeared to set an August 26 deadline for terminating the negotiations on outstanding issues.

14. (C) Four companies did not sign MOUs: XM, CP, Petrocanada, and CNPC. Both XM and CP told Post that they would not be signing the documents on June 25. Details regarding their decisions and their next steps are set out in paragraphs 9-15 below. CNPC's decision not to sign was somewhat surprising. Industry insiders believed the Chinese would eventually sign for geopolitical reasons. XM Government Relations Manager Carlos Ernesto Rodriguez (strictly protect throughout) told Petroleum Attache (Petatt) on the morning of June 26 that he received a call from CNPC stating that they were going to continue negotiating and were going to meet with BRV officials roughly two and one-half hours before the signing ceremony. During the ceremony,

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Ramirez was somewhat vague on the subject of CNPC. He stated the parties to the Sinovensa project had signed an agreement to complete the original terms of the project and that a new agreement forming a joint venture would be submitted to the National Assembly. The new joint venture would be in the spirit of agreements signed between the Venezuelan and Chinese governments. As reported in Reftel D, CNPC officials have complained bitterly about the migration and their treatment by the BRV.

15. (C) Chevron President Ali Moshiri attended the ceremony and sat on the stage with the other company representatives. However, he did not sign Chevron's MOU during the televised ceremony. We are not sure why. Moshiri told Petroleum Attache on June 25 that he would sign the MOU and give a short five to ten minute speech at the ceremony. We are assuming Moshiri signed the document in private.

WHO HAS WHAT

16. (C) Ramirez stated PDVSA's average share in the four Faja projects will rise from 39% to 78% as a result of the migration. The four projects will now have the following equity distributions: Sincor (PDVSA 60%, Total 30.3%, Statoil, 9.7%) Petrozuata (PDVSA 100%), Ameriven (PDVSA 70%, Chevron 30%) and Cerro Negro (PDVSA 83.3%, BP 16.7%). As a result of the departures of XM and CP, neither Chevron or BP suffered a diminution in their stakes in their respective strategic associations.

17. (C) Ramirez also announced that the size of the strategic association's blocks were to be reduced. Sincor's block will be reduced from 500 square kilometers to 399, Hamaca's from 650 square kilometers to 463, and Cerro Negro from 300 to 210 square kilometers. Ramirez did not mention any changes to Petrozuata's acreage. He also stated the new joint ventures would have to have a minimum recovery rate of 20%.

18. (C) As for the profit sharing agreements, PDVSA will control 100% of La Ceiba. Ramirez stated PDVSA would take a 74% stake in the Corocoro project and ENI would have a 26% stake. It is not clear if Ramirez was referring to the Golfo

de Paria Oeste (Corocoro) project alone or in conjunction with the Golfo de Paria Este project. PDVSA and Eni had stakes in both projects. Ramirez also announced that PDVSA would have a 60% stake in the Posa field with Sinopec taking a 32% stake and Eni a 8% share. (COMMENT: Ramirez' comments regarding the profit sharing agreements are confusing. It is not clear if he was treating the Golfo de Paria projects separately or as a single unit. In addition, there has been some confusion over whether the Posa field was part of Golfo de Paria Este or a separate development. Sinopec signed a document with the Energy Ministry in August 2006 giving it rights in the development of the Posa oil field, which is located east of the Gulf of Paria. In addition, a small Taiwanese company, OPIC, had minor stakes in both Golfo de Paria Este and Oeste. The company did not appear at the signing ceremony and it is not clear what their status is in Venezuela. END COMMENT)

XM SAYS ENOUGH IS ENOUGH

¶9. (C) Tim Cutt (strictly protect throughout), president of

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XM Venezuela, called the Ambassador on June 25 to inform him that XM will be withdrawing from Venezuela (Reftel E). Cutt met with Energy Vice Minister Bernard Mommer the evening of June 24 to inform him that XM would not be signing the MOU and conversion contract for its Cerro Negro strategic association and the La Ceiba profit sharing agreement field. (NOTE: XM had a 41.67% stake in Cerro Negro and a 50% stake in La Ceiba. END NOTE).

¶10. (C) Mommer told Cutt that all XM assets will be expropriated on June 25. As of June 26, XM will not have any assets in Venezuela. XM will conduct all future negotiations on compensation on that basis. In addition, XM will exit Venezuela as soon as possible.

¶11. (C) According to Cutt, XM does not intend to file for arbitration immediately. In addition, crude oil will continue to be shipped from Cerro Negro to the Chalmette refinery under existing supply contracts. XM plans to enter into settlement negotiations with the BRV while crude supplies continue to be shipped to Chalmette. Cutt said he was personally pessimistic that XM would reach a settlement agreement with the BRV. He told the Ambassador that the two sides were billions of dollars apart. Cutt add that it will take six months for XM to "debrand" its downstream assets following their sale last week. We believe that he was referring to the signage at the service stations and the branding of certain lubricants.

¶12. (C) Cutt told the Ambassador that he would meet with all XM employees at 3:00 PM on June 25 to inform them that XM was shutting down operations in Venezuela completely. Remaining expat employees will depart Venezuela and Venezuelan staff will be given separation packages. Cutt will depart Venezuela on or before July 3. All future negotiations between the BRV and XM will be carried out by XM employees who will fly into Caracas for meetings and work out of hotels.

PETROCANADA

¶13. (C) Cutt stated it was his understanding that Petrocanada, XM's partner in La Ceiba, has reached a settlement with the BRV and will be exiting Venezuela. Petrocanada holds a 50% stake in La Ceiba. Cutt did not provide details on the settlement. Ramirez stated during the settlement that the BRV had reached agreement with Petrocanada on compensation.

CONOCOPHILLIPS

¶14. (C) Roy Lyons (strictly protect throughout), president of CP Venezuela, told Petatt on June 25 that CP would not sign the MOU and conversion contract. He stated CP would continue negotiations with the BRV on the subject of compensation. He added the Petrozuata and Hamaca strategic associations would continue supplying crude oil to U.S. refineries under existing supply contracts. Lyons stated he was leaving Venezuela on vacation for 10 days. In a previous conversation with Petatt, Lyons stated CP planned on having all of its expat employees out of the country on the date of the signing ceremony.

¶15. (C) NOTE: ConocoPhillips is the largest foreign investor
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in Venezuela. It held a 50.1% stake in the Petrozuata strategic association and a 40% stake in the Hamaca strategic association. In addition, it held a 32.5% stake in the Golfo de Paria Oeste (Corocoro) profit sharing agreement field and a 37.5% stake in the Golfo de Paria Este profit sharing agreement field. CP also had a 40% stake in Block 2 of the Plataforma Deltana gas field. Although gas fields are not subject to the forced migration to a PDVSA-controlled joint venture, we are assuming that CP is also exiting that investment as well based on Lyons' previous statements. According to Bloomberg, CP's Venezuelan operations accounted for approximately 10% of the company's reserves. END NOTE

COMMENT

¶16. (C) Both XM and CP have stated for weeks that they thought it was highly unlikely that they would migrate their respective projects (Reftel B). Their departure raises a number of questions regarding outstanding bonds, future oil shipments to the States, and the BRV's ability to maintain production levels in the Faja over the medium to long term. Post will continue to monitor these issues as well as the actual formation of the new joint ventures by the remaining players.
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